

August 21, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

**RE: Docket 4605 - 2017 Standard Offer Service Procurement Plan
Responses to PUC Data Request – Set 2**

Dear Ms. Massaro:

On behalf of National Grid,¹ I am enclosing the Company's response to the second set of data requests issued by the Rhode Island Public Utilities Commission on August 15, 2017 in the above-referenced docket.

Thank you for your attention to this transmittal. If you have any questions, please call me at 401-784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

cc: Docket 4605 Service List
Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid.

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Joanne M. Scanlon

August 21, 2017
Date

**Docket No. 4605 - National Grid – 2017 Standard Offer Service (SOS) and
2017 Renewable Energy Standard (RES) Procurement Plans
Service List updated 8/10/17**

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The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4605
In Re: National Grid's Standard Offer Service Rates
For the Residential, Commercial, and Industrial Groups
For Effect October 1, 2017
Response to the Commission's Second Set of Data Requests
Issued on August 15, 2017

PUC 2-1

Request:

Please explain why the proposed SOS Rate for the Commercial Group is lower than the proposed SOS Rate for the Residential Group.

Response:

Please see Attachment PUC 2-1 for the Company's analysis of the difference between the proposed Residential and Commercial Standard Offer Service (SOS) rates. The proposed SOS rate for the Commercial Group is lower than the proposed SOS Rate for the Residential Group because the winning bids for the Commercial Group in the competitive solicitations were lower than those for the Residential Group. The Commercial Group's total proposed SOS charge of 9.35 cents/kWh is 0.165 cents/kWh lower than the total proposed SOS charge for Residential Group when the SOS Administrative Cost Factor, the Standard Offer Adjustment Factor, and the Renewable Energy Standard (RES) Charge are included.

The base SOS Price (excluding the SOS Administrative Cost Factor, the Standard Offer Adjustment Factor, and the RES Charge) is 0.300 cents/kWh lower for the Commercial Group than that of the Residential Group. This SOS Price is calculated with actual winning bids. Approximately one-third of the 0.300 cents/kWh difference, or 0.077 cents/kWh, is associated with the difference in the monthly distribution of the forecasted kWh used to calculate the fixed SOS Prices for both groups. The remaining 0.223 cents/kWh difference is associated with the lower bid prices submitted by the wholesale suppliers. Approximately one-half of the lower commercial cost and rate is associated with the bids for the month of October and 20 percent is associated with the month of March, as shown on Line (24) of Attachment PUC 2-1.

Feedback from suppliers suggests risk premiums and capacity costs as reasons for lower bid prices for the Commercial Group than the Residential Group. The Commercial Group has more consistent and level energy usage throughout a year which will lower the risk premiums associated with load volatility. Also, the Commercial Group's more stable energy usage results in lower hedging risks. Some suppliers may use block financial products, like swaps, to hedge the load expectations. Suppliers cannot hedge 100% of the load because of the variability in hourly usage: there will always be hours when usage exceeds or is below the financial hedge. The Commercial Group with its flatter energy usage will have smaller differences between actual load and hedges, which may result in lower hedging risk premiums. In addition, some suppliers offered that the Commercial Group's energy usage is less affected by weather than the Residential Group, thus reducing an additional risk.

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PUC 2-1, page 2

Finally, the incorporation of capacity into a \$/MWh bid price may result in lower bid prices for the Commercial Group. All customers' capacity charges in Rhode Island will utilize the same capacity price. However, capacity is a demand-based charge that is converted to a dollar \$/MWh bid price to establish retail rates. The flatter and more level Commercial Group's energy usage means there is more energy usage compared to the peak demand than there is for the Residential Group. Thus, the demand-based capacity charge is divided by more energy when calculating a \$/MWh cost. Higher usage in the denominator of that calculation will result in a lower \$/MWh amount to be included in the bid price.

Section 1

(1) Total Proposed Residential Standard Offer Service Rate	\$0.09515
(2) Total Proposed Commercial Standard Offer Service Rate	<u>\$0.09350</u>
(3) Difference between proposed Residential and Commercial Standard Offer Service Rates	\$0.00165
(4) Residential Weighted Average Standard Offer Service Base Price per kWh	\$0.09792
(5) Commercial Weighted Average Standard Offer Service Base Price per kWh	<u>\$0.09492</u>
(6) Difference in Proposed Standard Offer Service Base Rates	\$0.00300
(7) Residential Weighted Average Standard Offer Service Base Price per kWh Using Allocation between months of Commercial Forecast	\$0.09715
(8) Difference in Proposed Residential Standard Offer Service Base Rates Associated with Different Allocation between months	\$0.00077
(9) Difference in Proposed Standard Offer Service Base Rates Associated with Procurement Costs	\$0.00223

Section 2

	<u>October</u> (a)	<u>November</u> (b)	<u>December</u> (c)	<u>January</u> (d)	<u>February</u> (e)	<u>March</u> (f)	<u>Totals</u> (g)
(10) Estimated Residential Group Standard Offer Service Price per kWh	\$0.07776	\$0.08114	\$0.09511	\$0.11682	\$0.11788	\$0.09239	
(11) Estimated Commercial Group Standard Offer Service Price per kWh	<u>\$0.07111</u>	<u>\$0.07944</u>	<u>\$0.09343</u>	<u>\$0.11669</u>	<u>\$0.11727</u>	<u>\$0.08969</u>	
(12) Difference	\$0.00665	\$0.00170	\$0.00168	\$0.00013	\$0.00061	\$0.00270	
(13) % Difference	9%	2%	2%	0%	1%	3%	
(14) Projected Residential Group Standard Offer Service kWhs	196,321,907	190,086,129	223,740,948	239,460,395	222,527,720	214,283,355	1,286,420,453
(15) Projected Commercial Group Standard Offer Service kWhs	77,736,392	74,304,632	81,787,966	81,671,633	79,071,626	79,891,280	474,463,529
(16) Projected Residential Group Standard Offer Service Cost	\$15,265,992	\$15,423,588	\$21,280,002	\$27,973,763	\$26,231,568	\$19,797,639	\$125,972,552
(17) Projected Commercial Group Standard Offer Service Cost	\$5,527,835	\$5,902,760	\$7,641,450	\$9,530,263	\$9,272,730	\$7,165,449	\$45,040,486
(18) Weighted Average Residential Group Base Standard Offer Service Charge							\$0.09792
(19) Weighted Average Commercial Group Base Standard Offer Service Charge							\$0.09492
(20) Residential Group Standard Offer Service Cost Using Allocation between months of Commercial Forecast	\$6,044,782	\$6,029,078	\$7,778,853	\$9,540,880	\$9,320,963	\$7,381,155	\$46,095,712
(21) Residential Weighted Average Standard Offer Service Base Price per kWh Using Allocation between months of Commercial Forecast							\$0.09715
(22) Monthly delta between projected Residential costs using different forecast allocations	\$516,947	\$126,318	\$137,404	\$10,617	\$48,234	\$215,706	\$1,055,226
(23) Cost delta converted to Rate Factor	\$0.00110	\$0.00026	\$0.00029	\$0.00002	\$0.00010	\$0.00045	\$0.00223
(24) Cost Delta Distribution by month	49%	12%	13%	1%	5%	20%	100%

(1) Attachment 1, Page 3, Line (15)	(13) Line (12) ÷ Line (11), as a percentage
(2) Attachment 1, Page 4, Line (15)	(14) Attachment 1 Page 3 Line (7)
(3) Line (1) - Line (2)	(15) Attachment 1 Page 4 Line (7)
(4) Attachment 1 Page 3 Line (10)	(16) Line (10) x Line (14), also Attachment 1, Page 3, Line (9)
(5) Attachment 1 Page 4 Line (10)	(17) Line (11) x Line (15), also Attachment 1, Page 4, Line (9)
(6) Line (1) - Line (2)	(18) Line (16) Total ÷ Line (14) Total (truncated to 5 decimal places), also Attachment 1, Page 3, Line (10)
(7) Line (21)	(19) Line (17) Total ÷ Line (15) Total (truncated to 5 decimal places), also Attachment 1, Page 4, Line (10)
(8) Line (4) - Line (7)	(20) Line (10) x Line (15)
(9) Line (6) - Line (8)	(21) Line (20) Total ÷ Line (15) Total, truncated after 5 decimal places
(10) Attachment 1 Page 3 Line (8)	(22) Line (20) - Line (17)
(11) Attachment 1 Page 4 Line (8)	(23) Line (22) Total ÷ Line (15) Total
(12) Line (10) - Line (11)	(24) Line (22) Total ÷ Line (22) Total , as a percentage